



PNB
GILTS
LTD

(A subsidiary of Punjab National Bank)



19th ANNUAL REPORT
2014-15



Shri Gauri Shankar
Chairman



Shri K. V. Brahmaji Rao
Non-Executive Director



Shri S. K. Dubey
Managing Director



Smt. Sunita Gupta
Executive Director & CFO



Dr. O. P. Chawla
Independent Director



Dr. Kamal Gupta
Independent Director



Shri S. K. Soni
Independent Director



Shri P. P. Pareek
Independent Director

OUR MISSION

**To be a leader in the
Primary Dealer Business
and
to be known a Knowledge Based, Research Oriented
and
Quality Conscious Company maximising wealth for
Shareholders**

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Chairman's Letter to Shareholders

Dear Shareholders,

I extend my greetings to all of you. It is indeed a matter of both pride and pleasure to unveil the Annual Report of your Company for the Financial Year 2014-15. I call it pride because your Company has surpassed the feat that it attained last year to report a profit higher than the last ten years. At the same time, it is a matter of great pleasure for us as your contribution has been instrumental in the growth of your Company.

The year 2014-15 has been a year of transition. While the global pessimism still continues, India has managed to emerge as a favorable economy amidst all the global tensions. The market has witnessed new optimism. The base year has been revised to 2011-12 from the past base of 2004-05 and GDP is now being valued at market prices vis-a-vis the older concept of factor cost. As per the new methodology, the GDP stands at 7.3 per cent, which has transformed India into the fastest growing economy driven largely by services and manufacturing sectors. The Fiscal Deficit has been declining since then and CPI inflation at the end of the financial year was at manageable levels of 5.25 per cent, a sharp decline from the last couple of years. Falling prices of global crude oil which form a substantial part of our imports coupled with pro-active controls and effective fiscal and monetary policies kept the investment climate favorable throughout the year. Since then, the Rupee too has been range-bound between 60-64 INR per USD. In the light of the positive environment, the Reserve Bank of India has displayed a trend of lowering the policy rates to help credit growth in the economy. The ten year Government security yield which hovered above 8 per cent have come down to 7.74 per cent level by the end of the financial year owing to the optimism in the markets with regard to the rate cuts. This in turn has added to the positivity in the macro-economic environment of the country. Since, Government Securities are the main area of our operations; the good news has translated into a positive effect on the earnings as well.

Against the backdrop of the economic recovery in progress, the performance of your Company has been in line with our expectations. The Company maintained a composition mix of securities with an aim to maximize arbitrage income and also to have better trading opportunities with a judicious use of

the sources of borrowings. The Company has well developed systems, practices and policies in place for operational risk too along with market risk and all other categories of risk which have kept the risk profile in check. This agility and efficiency on our part led to a increase in the Profit Before Tax figure to ₹ 133.89 crore in FY 2014-15 vis-à-vis ₹ 90.70 crore in FY 2013-14. The Net Worth of your Company has increased by nearly 8 per cent to ₹ 718.06 crore as on March 31, 2015 as against ₹ 662.53 crore in the previous year. Also, your Company is adequately capitalized at a Capital Adequacy Ratio of 65.07 per cent as on March 31, 2015 against RBI's minimum stipulation of 15 per cent. The HR practices are also kept as per market standards to ensure a motivating environment for the employees.

Our performance over the last couple of years stands as a testimony to our capabilities and strategic orientation, the effectiveness of our risk management systems and the efficiency and dedication of the employees. Incessant support of all our shareholders has been our driving force. We are immensely grateful to you for your cooperation and support which has helped us handle troubles all these years.

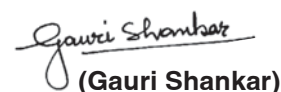
Way forward

With the new fiscal year upon us, the Indian economic scenario as well as the global environment will bring its own challenges and opportunities. The present market scenario globally has been less positive with regard to the Greek crisis and a gradual increase in the oil prices again. The recent policy rate cut to 7.25 per cent has not been able to hold up the positive sentiment in the Indian market due to hawkish expectations in the market. However, the Company is aware of the changes happening in the environment and is in line with its competitors. Having said that, we shall continue to realign our strategies and resources in order to ensure the best returns for our shareholders and sustain those returns in the long term. Your Company's pro-active trading skills, inbuilt efficiencies and robust risk management systems will ensure that the performance is strengthened in the forthcoming year.

We value your partnership as we position the Company to lead into the future and fulfill the mission the Company started with. I take this opportunity to express my gratitude to all the stakeholders for being with us and providing their support. I assure that the Company will continue to remain focused to deliver more value to all the stakeholders.

Date : June 27, 2015

Yours Sincerely,



(Gauri Shankar)

Chairman

DIN:06764026

BOARD'S REPORT

Dear Members,

Your Directors are pleased to present the Nineteenth Annual Report together with the Company's audited financial statements of the company for the financial year ended March 31, 2015.

1. RESULTS OF OUR OPERATIONS AND STATE OF AFFAIRS

The Company's financial performance, for the year ended March 31, 2015 is summarized below:

(₹ in lacs)

	For the year ended 31.3.2015	For the year ended 31.3.2014
Total Income	41001.18	34626.38
Total Expenditure	27611.92	25556.06
Profit/(loss) Before Tax	13389.26	9070.32
Less : Provision for Income Tax (including deferred tax)	4427.85	2932.13
Profit /(loss) After Tax	8961.41	6138.19
Add: Balance in Statement of Profit and Loss brought forward	10103.02	8271.51
Less : Adjustment for depreciation for Fixed Assets as per Schedule II of the Companies Act, 2013	24.95	-
Amount available for Appropriation	19039.48	14409.70
Proposed Appropriations		
Transfer to Statutory Reserve	1792.28	1227.64
General Reserve	-	-
Capital Reserve	1072.52	1183.62
Amount spent on CSR activities	134.71	-
Proposed Dividend	2700.15	1620.09
Dividend Distribution Tax	552.85	275.33
Balance carried forward	12786.97	10103.02

During FY 2014-15, your Company fulfilled all its obligations as a Primary Dealer in both primary and secondary market. With regard to Treasury Bills commitment, the Company exceeded the stipulated success ratio of 40 per cent, achieving 42.92 per cent and 49.60 per cent in H1 and H2 respectively. In G-sec category, Company fulfilled the underwriting commitments, thereby supporting the government borrowing program. Company delivered good performance during the year by astutely deriving advantage from volatile G-sec market condition and judicious deployment of funds in high yielding assets. The total Profit Before Tax for FY 2014-15 stands at ₹ 13389.26 lacs as against ₹ 9070.32 lacs in FY 2013-14. During the year, the net revenue from operations of your Company increased by 45.07 per cent, from ₹ 9990.01 lacs to ₹ 14492.48 lacs. Profit After Tax stood at ₹ 8961.41 lacs vis-à-vis ₹ 6138.19 lacs in the previous fiscal, registering a growth of 45.99 per cent.

The profitability was boosted by trading performance and judiciously taking advantage of arbitrage opportunity by the Company. During FY 2014-15, Company posted trading income of ₹ 7585.27 lacs as against ₹ 3140.78 lacs in last fiscal i.e. registered growth of 141.51 per cent. The Government Securities yields rallied sharply due to sharp fall in crude prices, moderation in inflation, ultra-accommodative monetary easing in the euro zone and Japan, receding fears of imminent normalization of US monetary policy and strong FII demand for Government Securities. Rate cuts by Reserve Bank of India (RBI) in two tranches by 25 basis points each also aided the government bonds market and the yields fell further. Amid these factors the yield on 10 year benchmark paper closed the year at 7.74 per cent as against 8.80 per cent as on March 31, 2014.

No material changes and commitments have occurred after the close of the year till the date of this report, which affect the financial position of the Company.

Capital Adequacy

Capital adequacy ratio as on March 31, 2015 stood at 65.07 per cent as against the RBI stipulation of 15 per cent.

Dividend

Your Board has recommended a final dividend of ₹ 1.50 (i.e. 15 per cent) per equity share (last year ₹ 0.90 per equity share) for the financial year ended March 31, 2015, subject to approval in the ensuing Annual General Meeting. The total outflow on account of said dividend shall be ₹ 3253 lacs (including Dividend Distribution Tax of ₹ 552.85 lacs).

Transfer to Reserves

Your Company proposes to transfer ₹ 1792.28 lacs in Statutory Reserve as required under the provisions of Section 45-IC of the Reserve Bank of India Act, 1934. ₹ 1072.52 lacs is proposed to be transferred in Capital Reserve in terms of RBI guidelines for Primary Dealers. Further, in terms of the first proviso to Section 123(1) of the Companies Act, 2013, the Company proposes not to transfer any sum in General Reserve.

2. CORPORATE GOVERNANCE

Corporate Governance for your Company means achieving high level of accountability, efficiency, responsibility and fairness in all areas of operations. Our workforce is committed towards the protection of the interest of the stakeholders including shareholders, creditors, investors, customers, employees, etc. Our policies consistently undergo improvements keeping in mind our goal i.e. maximization of value of all the stakeholders.

We comply with the SEBI and RBI guidelines on corporate governance. We have documented our internal code on Corporate Governance in compliance of SEBI and RBI guidelines. The Corporate Governance practices followed by the Company are given in the Annual Report. A certificate from M/s Kapoor Tandon & Co. (Firm Reg. No. 000952C), Statutory Auditor of the Company regarding compliance of conditions of Corporate Governance stipulated by Stock Exchanges is enclosed with the 'Report on Corporate Governance' forming part of the Board's Report.

Number of meetings of the Board

The Board met seven times during the financial year 2014-15 to review strategic, operational, technological and financial matters besides laying down policies and procedures for operational management of the Company. The details of such meetings are given in the 'Report on Corporate Governance' that forms part of this Annual Report.

Directors and Key Managerial Personnel

During the year 2014-15, the members in their Annual General Meeting held on August 30, 2014 approved the appointment of Dr. O. P. Chawla (DIN: 00026712), Dr. Kamal Gupta (DIN: 00038490), Sh. S. K. Soni (DIN: 00046856) and Sh. P. P. Pareek (DIN: 00615296) as Independent Directors for a term of five years with effect from August 30, 2014.

In the same Annual General Meeting, members also approved the appointment of Smt. Sunita Gupta (DIN: 06902258) as Whole-time Director with designation 'Executive Director and CFO' effective from June 26, 2014 to August 31, 2017.

The members also approved reappointment of Sh. S. K. Dubey (DIN: 01770805) as Managing Director for a period from February 1, 2014 to June 30, 2015. Further, on the recommendation of Nomination and Remuneration

Committee, the Board in its meeting held on April 29, 2015 re-appointed Sh. S. K. Dubey as Managing Director for a period effective from July 1, 2015 to June 30, 2016, subject to the shareholders approval in the ensuing Annual General Meeting.

During the year, Sh. K. R. Kamath (DIN: 01715073), Non-Executive Director and Chairman, upon completion of his term as Chairman and Managing Director of Punjab National Bank, resigned from the Directorship and Chairmanship of the Company with effect from October 29, 2014. The Board appreciate and thank him for his vision, leadership and guidance, enabling your Company to reach another standard of excellence.

Sh. P. K. Mohapatra (DIN: 02660553), who was appointed as a Non-Executive Director in the Annual General Meeting held on August 30, 2014, also demitted office effective from March 24, 2015. The Board places on record its appreciation for the services rendered by him during his tenure in the Company.

During the year, on recommendation of Nomination and Remuneration Committee, the Board has appointed –

- a. Sh. K. V. Brahmaji Rao (DIN: 06861202), Executive Director – Punjab National Bank as Additional (Non-Executive) Director w.e.f. November 1, 2014.
- b. Sh. Gauri Shankar (DIN: 06764026), Managing Director & Chief Executive Officer – Punjab National Bank as Additional (Non-Executive) Director w.e.f. March 25, 2015.

Further, in accordance with the provisions of the Companies Act, 2013 and the Articles of Association of the Company, Smt. Sunita Gupta (DIN: 06902258) shall retire by rotation in the ensuing Annual General Meeting and is eligible for reappointment.

Performance Evaluation

The Company has devised a policy for performance evaluation of Board of its own performance, Independent Directors, Non-Independent/Executive Directors and Board level Committees etc. as required under the provisions of the Companies Act, 2013 and Clause 49 of the Listing Agreement. The evaluation of all the Directors, the Board as a whole and its Committees was conducted based on the criteria and framework adopted by the Board. Copy of said policy, inter-alia, containing the process and criteria for evaluation is available at Company's website at the link <http://pnbgilts.com/data/governance/1433237578.pdf>.

Familiarization programme

The details of programme for familiarization of Independent Directors with the company, their roles, rights, responsibilities in the company, nature of industry in which the company operates, business model of the company and related matters are placed at Company's website at the link <http://pnbgilts.com/data/governance/1433236985.pdf>.

Quarterly updates on relevant statutory changes are also circulated to the Directors.

Policy on Directors' appointment and Remuneration etc.

The policies of the Company on Directors' appointment and Remuneration including criteria for determining qualifications, positive attributes, independence of a director and other matters provided under Sub-section (3) of Section 178 of the Companies Act, 2013 is appended as Annexure A to the Board's Report.

Declaration by Independent Directors

The Company has received declaration pursuant to Section 149(7) of the Companies Act, 2013 from each Independent Director confirming therein the criteria of Independence as prescribed both under the Companies Act, 2013 and Clause 49 of the Listing Agreement.

3. OTHER DISCLOSURES –

Audit Committee

The Audit Committee comprises of the following members –

Name of Director	Position
Dr. Kamal Gupta	Chairman
Dr. O. P. Chawla	Member
Sh. S. K. Soni	Member
Sh. P. P. Pareek	Member
Sh. P. K. Mohapatra ¹	Member

¹ Resigned from the directorship of the company w.e.f. March 24, 2015.

All the recommendations made by the Audit Committee during the year were accepted by the Board.

Corporate Social Responsibility (CSR) Committee

The CSR Committee was constituted by the Board before enactment of the Companies Act, 2013. After enactment, the Board in its first meeting held on April 26, 2014, reconstituted the CSR Committee.

The composition of the Committee is as under -

Name of Director	Position
Sh. K. V. Brahmaji Rao ¹	Chairman
Dr. Kamal Gupta	Member
Sh. S. K. Dubey	Member
Sh. P. K. Mohapatra	Member

¹ Inducted as Chairman on November 1, 2014. Till his induction, Dr. Kamal Gupta acted as Chairman and Sh. P. K. Mohapatra acted as member.

The CSR policy of the Company, duly recommended by the CSR Committee and approved by the Board, is available at our website at the link <http://pnbgilts.com/data/governance/1433236913.pdf>. The CSR activity of the Company is carried out as per the instructions of the Committee and Board. During the year, the Company has spent 2 per cent of its average net profits of the three immediately preceding financial years on CSR activity.

The annual report on our CSR for the financial year 2014-15 in the prescribed format is presented at Annexure B to the Board's Report.

Other details of above said and other Committees of the Board are given in the 'Report on Corporate Governance' forming part of the Board's Report.

Whistle Blower Policy (including Vigil Mechanism)

Your Company believes in conducting its affairs in a fair and transparent manner by adopting highest standards of professionalism, honesty, integrity and ethical behaviour. Your Company is committed to develop a culture where it is safe for all employees to raise concerns about any wrongful conduct.

The Board of Directors has approved a Whistle Blower Policy (including Vigil Mechanism), which provides a framework to promote a responsible and secure whistle blowing. It protects employees wishing to raise a concern about serious irregularities within the Company. The Audit Committee reviews the functioning of this mechanism. No employee / director has been denied access to the Audit Committee. The said policy may be accessed on the Company's website at the link <http://pnbgilts.com/data/governance/1409222609.pdf>

Contracts and Arrangements with Related Parties

All the contracts/ arrangements/transactions entered by the company are in ordinary course of business and generally at arm's length. Further during the year, the company had not entered into any contract/arrangement/ transaction with related parties, which could be considered material in accordance with the Company's Policy/ Standard Operating Procedures (SOP) on Related Party Transactions. The said Policy/SOP can be accessed at the Company's website at the link <http://pnbgilts.com/data/shareholder/1417690793.pdf>

Necessary disclosure in prescribed form AOC-2 is annexed at Annexure C.

Subsidiaries

The Company, being a RBI regulated Primary Dealer, is prohibited to form any subsidiary. As such, the Company has not formulated any policy for determining 'material' subsidiaries under Clause 49 of Listing Agreement.

Further, since the Company is not having any subsidiary or associate or joint venture, it is not required to consolidate the financial statements in terms of Section 129 of the Companies Act, 2013 read with Rule 5 of the Companies (Accounts) Rules, 2014. However, the financial statements of the Company for FY 2014-15 had already been considered by its parent bank i.e. Punjab National Bank for consolidation.

Directors' Responsibility Statement

Pursuant to the requirements of Section 134(3)(c) of the Companies Act, 2013, your Directors confirm that:

- (a) in the preparation of the annual accounts for the year ended March 31, 2015, the applicable accounting standards read with the requirements set out under the Schedule III to Companies Act, 2013, have been followed and there are no material departures from the same;
- (b) the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2015 and of the profit and loss of the company for the year ended on that date;
- (c) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) the Directors had prepared the annual accounts on a going concern basis;
- (e) the Directors had laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
- (f) the Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Human Resource Management

Your Company treats its human resources as one of its most important assets. To ensure good human resource management in the Company, the Company focuses on all the aspects of employee lifecycle. During their tenure in the Company, employees are motivated through various skill development and volunteering programmes. Recreational programmes are also conducted on regular basis so as to create stress-free environment. All the while, the Company also creates effective dialogues through various communication channels like face to face interactions so as to ensure that feedback reach the relevant teams. In house meetings and training sessions are also arranged to engage and develop the employees and to gather ideas around innovation.

The information required to be disclosed under Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2015 be treated as NIL as none of the employees of the Company draws remuneration in excess of ₹ 5 lacs p.m. No employee is related to any Director of the Company.